Consolidated Financial Statements and Other Financial Information

Essent Healthcare of Connecticut, Inc. and Subsidiary
Years Ended September 30, 2010 and 2009
With Report of Independent Auditors

Ernst & Young LLP

Essent Healthcare of Connecticut, Inc. and Subsidiary

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and Other Financial Information

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Ernst & Young LLP
One Nashville Place
Suite 1400
150 Fourth Avenue North
Nashville, TN 37219
Tel: +1 615 252 2000
Fax: +1 615 242 9128
www.ey.com

Report of Independent Auditors

The Board of Directors
Essent Healthcare of Connecticut, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of Essent Healthcare of Connecticut, Inc. and Subsidiary as of September 30, 2010 and 2009, and the related statements of income, stockholder's equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Essent Healthcare of Connecticut, Inc. and Subsidiary at September 30, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

January 12, 2011

Essent Healthcare of Connecticut, Inc. and Subsidiary

Consolidated Balance Sheets

	September 30 2010	September 30 2009
Assets		
Current assets:		
Patient accounts receivable, net of allowance for doubtful accounts of $4,034,864 in 2010 and $4,044,869 in 2009	**$ 6,242,425**	$ 6,542,170
Inventories	**1,162,381**	1,140,534
Prepaid expenses and other receivables	**598,277**	1,526,863
Deferred income taxes	**1,640,784**	1,627,405
Total current assets	**9,643,867**	10,836,972
Property and equipment:		
Land and land improvements	**1,797,359**	1,797,359
Buildings	**39,391,598**	39,340,742
Equipment	**17,501,434**	16,149,430
Construction in progress	**242,040**	235,793
	58,932,431	57,523,324
Less accumulated depreciation	**(19,807,940)**	(16,518,636)
	39,124,491	41,004,688
Amounts due from Parent	**8,029,726**	5,228,965
Other	**501,089**	501,632
Total assets	**$ 57,299,173**	$ 57,572,257

Essent Healthcare of Connecticut, Inc. and Subsidiary

Consolidated Balance Sheets (continued)

	September 30	
	2010	**2009**
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and other liabilities	**$ 1,370,735**	$ 1,983,168
Other accrued expenses	**3,596,931**	3,690,101
Due to third-party payors	**322,546**	435,106
Current portion of capital lease obligations	**547,476**	606,509
Current portion of long-term debt	**350,000**	350,000
Total current liabilities	**6,187,688**	7,064,884
Accrued post-retirement benefits	**1,502,000**	1,407,000
Deferred income taxes	**683,645**	762,982
Capital lease obligations, less current portion	**470,384**	1,001,842
Long-term debt, less current portion	**33,687,500**	34,037,500
Other	**124,844**	124,844
Stockholders' equity:		
Class A common stock; $0.01 par; 19,000 shares authorized; 19,000 shares issued and outstanding	**190**	190
Class B common stock; $0.01 par; 1,000 shares authorized; 1,000 shares issued and outstanding	**10**	10
Additional paid-in capital	**124,956**	124,956
Other comprehensive loss	**(456,977)**	(353,878)
Retained earnings	**14,974,933**	13,401,927
Total stockholder's equity	**14,643,112**	13,173,205
Total liabilities and stockholders' equity	**$ 57,299,173**	$ 57,572,257

See accompanying notes.

Essent Healthcare of Connecticut, Inc. and Subsidiary

Consolidated Statements of Income

	Year Ended September 30	
	2010	**2009**
Net revenues:		
Net patient revenue	**$ 54,034,467**	$ 54,310,740
Other revenue	**531,371**	543,474
Total net revenue	**54,565,838**	54,854,214
Operating expenses:		
Salaries and benefits	**23,095,256**	21,273,114
Professional services	**8,549,413**	9,099,695
Supplies	**5,831,745**	6,139,169
Other operating expenses	**6,022,301**	5,887,509
Provision for doubtful accounts	**2,035,446**	2,882,152
Depreciation and amortization	**3,287,347**	3,555,043
	48,821,508	48,836,682
Income before interest, intercompany fees and income tax provision	**5,744,330**	6,017,532
Interest expense	**1,629,083**	2,032,328
Intercompany fees	**1,536,097**	1,264,688
Income before taxes	**2,579,150**	2,720,516
Income tax provision	**1,006,144**	846,933
Net income	**$ 1,573,006**	$ 1,873,583

See accompanying notes.

Essent Healthcare of Connecticut, Inc. and Subsidiary

Consolidated Statements of Stockholders' Equity

	Common Stock – Class A Shares	Common Stock – Class A Amount	Common Stock – Class B Shares	Common Stock – Class B Amount	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Loss	Total Stockholder's Equity
Balance at September 30, 2008	19,000	$ 190	1,000	$ 10	$ 124,956	$ 11,528,344	$ –	$ 11,653,500
Net income	–	–	–	–	–	1,873,583	–	1,873,583
Actuarial losses on post retirement healthcare benefit (net of tax benefit)	–	–	–	–	–	–	(353,878)	(353,878)
Balance at October 1, 2009	19,000	190	1,000	10	124,956	13,401,927	(353,878)	13,173,205
Net income	**–**	**–**	**–**	**–**	**–**	**1,573,006**	**–**	**1,573,006**
Actuarial losses on post retirement healthcare benefit (net of tax benefit)	**–**	**–**	**–**	**–**	**–**	**–**	**(103,099)**	**(103,099)**
Balance at September 30, 2010	**19,000**	**$ 190**	**1,000**	**$ 10**	**$ 124,956**	**$ 14,974,933**	**$ (456,977)**	**$ 14,643,112**

See accompanying notes.

Essent Healthcare of Connecticut, Inc. and Subsidiary

Consolidated Statements of Cash Flows

	Year Ended September 30 2010	2009
Operating activities		
Net income	**$ 1,573,006**	$ 1,873,583
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**3,287,347**	3,555,043
Provision for doubtful accounts	**2,035,446**	2,882,152
Post-retirement benefits	**(61,210)**	–
Deferred income taxes	**(39,605)**	(644,982)
Changes in operating assets and liabilities:		
Accounts receivable	**(1,735,701)**	(2,768,129)
Inventories	**(21,847)**	(5,696)
Prepaid expenses and other current assets	**928,586**	(353,126)
Accounts payable and other current liabilities	**(705,603)**	450,537
Due to third-party payers	**(112,560)**	227,062
Net cash provided by operating activities	**5,147,859**	5,216,444
Investing activities		
Decrease in other assets	**543**	21,476
Purchases of property and equipment	**(1,316,502)**	(1,136,271)
Net cash used in investing activities	**(1,315,959)**	(1,114,795)
Financing activities		
Net advances to Essent Healthcare, Inc.	**(2,800,761)**	(2,947,624)
Payments on debt	**(350,000)**	(350,000)
Capital lease principal payments	**(681,139)**	(804,025)
Net cash used in financing activities	**(3,831,900)**	(4,101,649)
Change in cash and cash equivalents	**–**	–
Cash and cash equivalents, beginning of period	**–**	–
Cash and cash equivalents, end of period	**$ –**	$ –
Supplemental cash flow information		
Cash paid for interest	**$ 1,629,083**	$ 2,032,328
Non-cash investing activities		
Equipment acquired under capital lease obligations	**$ 90,648**	$ –

See accompanying notes.

1. Business and Summary of Significant Accounting Policies

Organization

Essent Healthcare of Connecticut, Inc. (the Company) is a wholly owned subsidiary of Sharon Hospital Holding Company, Inc. (the Parent), which in turn is a wholly owned subsidiary of Essent Healthcare, Inc. (Essent). As of September 30, 2010, the Company owns and operates Sharon Hospital (the Hospital) and physician office practices. These consolidated financial statements include the results of operations of Essent Healthcare of Connecticut, Inc. and Regional Healthcare Associates, LLC for the years ended September 30, 2010 and 2009. The Hospital and physician practices provide healthcare services to patients living in Sharon, Connecticut and the surrounding communities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand less an amount for payments that have not cleared the bank (outstanding checks). At September 30, 2010 and 2009, the amount of outstanding checks exceeded the amount of cash on hand. The net balance of $712,917 at September 30, 2010 and $1,264,903 at September 30, 2009, are included in accounts payable and other liabilities in the accompanying consolidated balance sheets. The Company participates in the Essent's cash management system, which provides cash to the Company as outstanding checks clear the bank. Cash and cash equivalents are held in financial institutions that are federally insured. The amount of credit exposure with any one institution is limited.

1. Business and Summary of Significant Accounting Policies (continued)

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Essent Healthcare of Connecticut Inc., and of its wholly-owned subsidiary. All material intercompany accounts and transactions have been eliminated in consolidation.

Net Patient Revenue and Accounts Receivable

The Company has entered into agreements with third-party payors, including government programs and commercial insurers, under which the facilities are paid based upon discounts from established charges, the cost of providing services, predetermined rates per diagnosis, or fixed per diem rates. Revenues are recorded at the time the healthcare services are provided at estimated amounts due from patients and third-party payors. Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as interim or final settlements of amounts are determined. Final determination of certain amounts earned under prospective payment and cost-reimbursement activities is subject to review by appropriate governmental authorities or their agents and may take several years for the final settlements to be determined.

Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a possibility that recorded estimates may change in the future. The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the Company’s financial statements.

Management recognizes that revenue and receivables from government agencies are significant to its operations, but it does not believe that there is significant credit risks associated with these government agencies. The Company performs continual credit evaluations of its accounts receivable and maintains allowances for estimated uncollectible amounts. The Company’s determination of uncollectible accounts is based on an assessment of historical and expected net collections, and business and economic conditions prevalent in each operating market and trends in federal and state governmental healthcare coverage. Upon the culmination of reasonable collection efforts, accounts receivable are written-off based upon specific identification.

1. Business and Summary of Significant Accounting Policies (continued)

Approximately 57.2% and 54.3% of the Company's gross charges for the years ended September 30, 2010 and 2009, respectively, were related to patients participating in the Medicare and Medicaid programs.

The Company provides care to patients who are financially unable to pay for the healthcare services they receive. Because the Company does not pursue collection of amounts determined to qualify as charity care, the related charges are not reported as revenue. The amount of charges forgone for services and supplies furnished under the Company's charity care policy aggregated approximately $767,288 and $430,330 for the years ended September 30, 2010 and 2009, respectively.

Inventories

Inventories, principally medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out) or market.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase values, change capacities or extend useful lives are capitalized. Depreciation expense is computed by the straight-line method over the estimated useful lives of the assets, which approximate 3 to 30 years. Depreciation expense, including amortization on assets recorded under capital lease obligations, was $3,287,347 and $3,555,043 for the years ended September 30, 2010 and 2009, respectively.

Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In evaluating possible impairment, the Company uses the most appropriate method of evaluation given the circumstances surrounding the particular asset, which generally has been an estimate of the related asset's undiscounted cash flows, as prescribed by the Financial Accounting Standards Board (the FASB) accounting guidance for the impairment or disposal of long-lived assets. The Company incurred no impairment to the long-lived assets in the years ended September 30, 2010 and 2009.

1. Business and Summary of Significant Accounting Policies (continued)

Amounts due to/from Parent

Amounts due to/from Parent represent the net excess or deficit of funds transferred to or paid on behalf of the Company over funds transferred to the centralized cash management account of the Parent. Generally, this balance represents funds advanced to acquire the facility, net effect of funds used or provided by the Company during the normal daily cash management process, plus any intercompany charges from the Parent to the Company for management fees. Management fees include an allocation of corporate office expense of $1,536,097 and $1,264,689 for the years ended September 30, 2010 and 2009, respectively.

Self-Insurance Plan

The Company maintained a self-insured medical and dental plan for employees. Claims were accrued under this plan as the incidents that give rise to them occurred. Unpaid claim accruals are based on the estimated ultimate cost of the claim, including any related expenses, in accordance with the Company's past experience. The Company has entered into a reinsurance agreement with an independent insurance company to limit its losses on claims. The Company remains liable for these claims to the extent that the re-insurer does not meet its obligations.

Income Taxes

The Company is a corporation subject to federal and state income taxes. In accordance with the FASB's guidance for accounting for income taxes, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. Under the income tax guidance, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company is included in the consolidated Federal tax return of the Parent. The Parent's tax policy is to allocate a provision for income taxes as if the Company filed a separate return. The state income tax provision for the years ended September 30, 2010 and 2009, were based on the Company's allocable share of the consolidated Connecticut income tax rate for Essent. Obligations related to income taxes of $966,539 and $1,309,614 at September 30, 2010 and 2009 respectively, are included in Amounts due from Parent in the accompanying consolidated balance sheets. All income tax payments are paid by the Parent in connection with the consolidated Federal tax obligation.

1. Business and Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The carrying amounts reported in the accompanying balance sheets for accounts receivable, prepaid expenses and other current assets, accounts payable, accrued expenses, other current liabilities, and other liabilities approximate fair value. Based on the borrowing rates currently available to the Company, the carrying amounts reported for long-term debt and capital lease obligations approximate fair value.

Professional and General Liability Reserves

The Company is insured for professional and general liabilities under the Parent's insurance policies. The Parent insures for professional and general liability risks under a combination of "claims-made" policies. Claims are covered up to at least $2,000,000 per occurrence and are subject to a $2,000,000 self-insured retention. The Company paid $820,000 and $772,000 in 2010 and 2009 to a subsidiary of the Parent to insure the $2,000,000 self-insurance retention. Additionally, the Parent has excess liability policies in place to extend coverage to a maximum of $40,000,000 per occurrence and in the aggregate. The Parent reserves for professional and general liability risks, including estimates for incurred but not reported claims, and allocates such costs to the Company. Professional and general liability costs incurred for the year ended September 30, 2010 and 2009, and recorded in other operating expenses in the consolidated statements of income totaled $1,381,271 and $1,227,519 respectively.

Recent Accounting Developments

In July 2006, the FASB issued guidance relating to the accounting for uncertainty in income taxes (tax uncertainty guidance). The tax uncertainty guidance clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with the guidance for accounting for income taxes. The guidance also prescribes the recognition of a tax position taken or expected to be taken in a tax return. In addition, the guidance provides rules on derecognition, classification, interest and penalties, accounting, disclosure and transition. The provisions of the tax uncertainty guidance are to be applied to all tax positions upon initial adoption of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of the guidance. The cumulative effect of applying the provisions of the guidance should be reported as an adjustment to the opening balance of retained earnings for that fiscal year. The

1. Business and Summary of Significant Accounting Policies (continued)

provisions of the guidance were adopted by the Company on October 1, 2009. The Company did not have any significant unrecognized tax benefits and there was no material effect on the financial condition or results of operations as a result of implementing the guidance.

In January 2010, the FASB issued updated guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. This update requires new disclosures about significant transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy (including the reasons for these transfers) and the reasons for any transfers in or out of Level 3. This update also requires a reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis. In addition to these new disclosure requirements, this update clarifies certain existing disclosure requirements. For example, this update clarifies that reporting entities are required to provide fair value measurement disclosures for each class of assets and liabilities, rather than each major category of assets or liabilities. This update also clarifies the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. This update will become effective for the Company with the annual reporting period beginning after December 15, 2010, the Company’s fiscal year 2012. The Company will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. Other than requiring additional disclosures, adoption of this update will not have a material impact on the consolidated financial statements.

In August 2010, the FASB issued guidance to amend the insurance claims and related insurance recoveries presentation requirements for health care organizations (insurance claims guidance). Such guidance will require health care organizations to present anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities separately on the balance sheet, unless the criteria for offsetting are met. The insurance claims guidance will become effective for the Company with the annual reporting period beginning after December 15, 2010, the Company’s fiscal year 2012, through a cumulative effect adjustment as of the beginning of the period of adoption. Additionally, the Company is permitted to elect to apply the guidance retrospectively, and early adoption will be permitted. Adoption of the insurance claims guidance will not have a material impact on the consolidated financial statements.

In August 2010, the FASB issued guidance regarding charity care disclosure requirements for health care organizations (charity care guidance). Such guidance will require health care organizations to disclose the level of charity care provided based on the direct and indirect costs

1. Business and Summary of Significant Accounting Policies (continued)

of the charity care services provided. In addition, health care organizations will be required to separately disclose the amount of any cash reimbursements received for providing charity care. The charity care guidance will become effective for the Company with the annual reporting period beginning after December 15, 2010, the Company's fiscal year 2012, through retrospective application to all periods presented. Early adoption will be permitted. Other than requiring additional disclosures, adoption of the charity care guidance will not have a material impact on the consolidated financial statements.

2. Retirement Benefit Plans

Postretirement Benefit Plan

The Company provides postretirement benefits to eligible former employees of the Hospital who retired prior to August 1, 1994. The Hospital provides supplemental medical and dental coverage to retirees who retired prior to that date. Only those employees grandfathered in the postretirement plan are eligible to participate.

Significant disclosures relating to the postretirement benefit plan (measured as of September 30, 2010 and 2009) follow:

	2010	2009
Components of net periodic benefit cost		
Interest cost	**$ 74,000**	$ 92,000
Amortization of actuarial loss	**58,000**	9,000
Net periodic benefit cost	**$ 132,000**	$ 101,000

	2010	**2009**
Change in benefit obligation		
Accumulated benefit obligation at beginning of year	**$ 1,571,000**	$ 1,270,000
Interest cost	**74,000**	92,000
Benefits paid	**(260,000)**	(233,000)
Actuarial loss	**281,000**	442,000
Accumulated benefit obligation at end of year	**$ 1,666,000**	$ 1,571,000

2. Retirement Benefit Plans (continued)

	2010	2009
Change in plan assets		
Fair value of plan assets at end of prior year	**$ –**	$ –
Employer contributions	**260,000**	233,000
Benefits paid	**(260,000)**	(233,000)
Fair value of plan assets at end of year	**$ –**	$ –
Funded status at year end	**$ (1,666,000)**	$ (1,571,000)

	2010	2009
Amounts recognized in the statement of financial position consists of		
Current liabilities	**$ (164,000)**	$ (164,000)
Noncurrent liabilities	**(1,502,000)**	(1,407,000)
Net amount recognized in statement of financial position	**$ (1,666,000)**	$ (1,571,000)

	2010	2009
Weighted-average assumptions used to determine benefit obligations at September 30		
Discount rate	**3.94%**	4.95%
Measurement date	**Sept. 30, 2010**	Sept. 30, 2009
Medical cost trend rate assumed for next year	**6.50%**	6.75%
Ultimate rate	**5.00%**	5.00%
Year that the rate reaches the ultimate rate	**2018-2019**	2018-2019

	2010	2009
Expected cash flows		
Expected return of assets to employer in next year	**$ –**	$ –
Expected employer contributions for next fiscal year	**164,000**	163,000

2. Retirement Benefit Plans (continued)

	Employer Benefit Payment
Expected benefit payments for fiscal year ending in:	
2011	$ 164,000
2012	163,000
2013	161,000
2014	158,000
2015	154,000
Next 5 years	674,000

	2010	2009
Effect of 1% increase in trend rates		
Effect on total service cost and interest cost	**$ 5,000**	$ 6,000
Effect on benefit obligation	**100,000**	69,000
Effect of 1% decrease in trend rates		
Effect on total service cost and interest cost	**(4,000)**	(5,000)
Effect on benefit obligation	**(91,000)**	(63,000)

For measurement purposes relating to the postretirement benefit plan for 2010, annual increases in per capita cost of covered health care benefits of 6.50% (grading down to 5.0% after 7 years) were assumed.

2. Retirement Benefit Plans (continued)

401(k) Plan

Effective October 1, 1999, Essent Healthcare, Inc. (Essent) adopted the Essent Healthcare, Inc. 401(k) Plan (the Benefit Plan). Each employee employed on the effective date was deemed eligible to participate. Otherwise, to become eligible, participants must be at least 21 years of age and be employed by the Company. The Company makes matching contributions to the Benefit Plan on a discretionary basis. Matching contributions paid during the year ended September 30, 2010, related to the Plan year 2009 were $133,729. During fiscal year 2009, the Company decided not to fund an employer match for the Plan year 2008. Accordingly, the Company reduced employee benefits in 2009 by $229,000. As of September 30, 2010, an accrual for matching contributions in the amount of approximately $211,000 is included in accrued expenses in the accompanying consolidated balance sheets for matching contributions related to Plan year 2010. For the years ended September 30, 2010 and 2009, the Company recorded $141,504 and $(24,111), as an expense (benefit) related to the employer's matching contribution to participants in the Benefit Plan.

3. Debt

Credit Facility

On December 20, 2007, Essent entered into a credit facility which consists of two term loans and a revolving credit loan. The proceeds from the loan were used to retire all of Essent's and the Company's then outstanding term and revolver debt and pay the debt issuance costs incurred in connection with the transaction. One of the term loans, in the amount of $35,000,000, is an obligation of the Company. This term loan will be repaid in twenty-two consecutive quarterly installments of $87,500 beginning on March 31, 2008 with a final payment of $33,075,000 on September 30, 2013. The revolving credit loan matures on September 30, 2013. The interest on the loans will accrue at the Company's option at either base rate (prime) or LIBOR plus an applicable margin. On June 2, 2010, Essent entered into an agreement to amend the credit facility. The impact on the Company's term loan was to increase the maximum margin from 3.0% to 3.5% for base rate loans and from 4.0% to 4.5% for LIBOR loans. The margins above the prime rate or LIBOR will decrease depending on the Parent's consolidated leverage ratio as defined in the Agreement. At September 30, 2010, the interest rate was 4.26%.

3. Debt (continued)

In accordance with the Credit Agreement, Essent is required to comply with certain covenants including a fixed coverage charge ratio and a leverage ratio. The Parent was in compliance with the covenants as of September 30, 2010. The Company's term loan is secured by a collateral interest in substantially all of the Company's assets.

Considering the terms of the Credit Facility, the Company's scheduled principal payments over the next five years are as follows:

For the year September 30, 2010	Amount
2011	$ 350,000
2012	350,000
2013	33,337,500

4. Common Stock

The Company issued 19,000 shares of Class A Common Stock to the Parent at a price of $0.01 per share. Holders of the Class A Common Stock outstanding shall be entitled to one vote per share on all matters to be voted on by the stockholders. The Board may declare a dividend upon the Common Stock out of the unrestricted and unreserved surplus of the Company. As and when dividends are declared or paid thereon, the holders of the Common Stock shall be entitled to receive the balance of such dividends ratably among such holders.

Upon any liquidation of the Company, after payment of all of the Company's debts and obligations, the holders of Common Stock shall be entitled to participate in all distributions. The holders of the Class A Common Stock shall be entitled to receive the balance of such distribution ratably among such holders.

In connection with the acquisition of the Hospital, the Company issued 1,000 shares of $0.01 par value, non-voting Class B Common Stock (the Shares) to the seller. In accordance with the Stockholders Agreement, the Company has the right to call the Shares at any time on and after April 12, 2012, for a total purchase price of $250,000.

5. Capital Lease Obligations

The Company leases various equipment under lease agreements that have been capitalized with a net book value of $1,187,661 and $1,719,620 included in equipment at September 30, 2010 and 2009, respectively. Future minimum lease payments and the present value of future minimum lease payments for capital leases as of September 30, 2010, are as follows:

2011	$ 604,114
2012	341,267
2013	100,344
2014	72,291
Total future minimum lease payments	1,118,016
Less amounts representing interest	100,156
	1,017,860
Less current portion	547,476
Long-term capital lease obligations	$ 470,384

6. Income Taxes

The income tax provision for the year ended September 30, 2010 and 2009 includes the following components:

	2010	**2009**
Federal income tax provision (benefit):		
Current	**$ 868,288**	$ 1,202,490
Deferred	**39,605**	(462,681)
	907,893	739,809
State income tax provision:		
Current	**98,251**	107,124
	98,251	107,124
	$ 1,006,144	$ 846,933

6. Income Taxes (continued)

Significant components of the Company's deferred tax assets and liabilities consist of the following at September 30, 2010:

	Current	Noncurrent	Total
Deferred tax assets:			
Accrued expenses	**$ 582,409**	**$ 343,988**	**$ 926,397**
Allowance for doubtful accounts	**1,058,375**	**–**	**1,058,375**
Charitable contribution carryover	**–**	**48,606**	**48,606**
Post retirement	**–**	**235,412**	**235,412**
Total deferred tax assets	**1,640,784**	**628,006**	**2,268,790**
Deferred tax liabilities:			
Property and equipment	**–**	**(1,311,651)**	**(1,311,651)**
Total deferred tax liabilities	**–**	**(1,311,651)**	**(1,311,651)**
Net deferred tax assets (liabilities)	**$ 1,640,784**	**$ (683,645)**	**$ 957,139**

Significant components of the Company's deferred tax assets and liabilities consist of the following at September 30, 2009:

	Current	Noncurrent	Total
Deferred tax assets:			
Accrued expenses	$ 537,087	$ 486,206	$ 1,023,293
Allowance for doubtful accounts	1,090,318	–	1,090,318
Charitable contribution carryover	–	31,380	31,380
Post retirement	–	182,301	182,301
Total deferred tax assets	1,627,405	699,887	2,327,292
Deferred tax liabilities:			
Property and equipment	–	(1,462,869)	(1,462,869)
Total deferred tax liabilities	–	(1,462,869)	(1,462,869)
Net deferred tax assets (liabilities)	$ 1,627,405	$ (762,982)	$ 864,423

6. Income Taxes (continued)

The Company's effective tax rate differed from the federal statutory rate as set forth below:

	2010	2009
Tax at U.S. statutory rates	**$ 876,911**	$ 924,975
State taxes, net of federal benefits	**64,737**	70,702
Other	**64,496**	(148,744)
Total	**$ 1,006,144**	$ 846,933

7. Contingencies and Healthcare Regulations

The Company is subject to various claims and lawsuits arising in the normal course of business. In the opinion of management, the ultimate resolution of these matters will not have a material effect on the Company's financial position or results of operations.

Healthcare Regulations

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries are outstanding, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Company.

7. Contingencies and Healthcare Regulations (continued)

Operating Leases

The Company leases office facilities and certain equipment under noncancellable operating leases that expire at various dates through 2012. As of September 30, 2010, the future minimum lease commitments under these noncancellable leases are as follows:

2011	$ 89,422
2012	56,323
2013	28,397
2014 and thereafter	20,161
Total minimum rental payments	$ 194,303

Total rental expense amounted to approximately $469,551 and $477,472 for the years ended September 30, 2010 and 2009, respectively.

8. Subsequent Events

The Company has evaluated all material events subsequent to the balance sheet date through January 12, 2011, for events requiring disclosure or recognition in the consolidated financial statements. There were not subsequent events requiring disclosure or recognition in the consolidated financial statements.

Other Financial Information

Ernst & Young LLP
One Nashville Place
Suite 1400
150 Fourth Avenue North
Nashville, TN 37219
Tel: +1 615 252 2000
Fax: +1 615 242 9128
www.ey.com

Report of Independent Auditors on Other Financial Information

The Board of Directors
Essent Healthcare of Connecticut, Inc. and Subsidiary

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating financial information as of and for the year ended September 30, 2010 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Ernst & Young LLP

January 12, 2011

Consolidated Essent Healthcare of Connecticut, Inc.

Consolidating Balance Sheet

Year Ended September 30, 2010

	Essent Healthcare of Connecticut, Inc.	Regional Healthcare Associates, LLC	Eliminations	Consolidated Essent Healthcare of Connecticut, Inc.
Assets				
Current assets:				
Patient accounts receivable, net of allowance for doubtful accounts of $4,034,864	$ 5,879,926	$ 362,499	$ –	$ 6,242,425
Inventories	1,162,381	–	–	1,162,381
Prepaid expenses and other receivables	598,277	–	–	598,277
Deferred income taxes	1,640,784	–	–	1,640,784
Total current assets	9,281,368	362,499	–	9,643,867
Property and equipment:				
Land and land improvements	1,797,359	–	–	1,797,359
Buildings	39,050,328	341,270	–	39,391,598
Equipment	17,006,422	495,012	–	17,501,434
Construction in progress	242,040	–	–	242,040
	58,096,149	836,282	–	58,932,431
Less accumulated depreciation	(19,433,867)	(374,073)		(19,807,940)
	38,662,282	462,209	–	39,124,491
Amounts due from (to) Parent/Affiliate	12,575,920	(4,546,194)	–	8,029,726
Other	492,086	9,003	–	501,089
Total assets	$ 61,011,656	$ (3,712,483)	$ –	$ 57,299,173

Consolidated Essent Healthcare of Connecticut, Inc.

Consolidating Balance Sheet (continued)

	Essent Healthcare of Connecticut, Inc.	Regional Healthcare Associates, LLC	Eliminations	Consolidated Essent Healthcare of Connecticut, Inc.
Liabilities and stockholder's equity (deficit)				
Current liabilities:				
Accounts payable and other liabilities	$ 1,338,667	$ 32,068	$ –	$ 1,370,735
Other accrued expenses	3,591,616	5,315	–	3,596,931
Due to third-party payors	322,546	–	–	322,546
Current portion of capital lease obligations	547,476	–	–	547,476
Current portion of long-term debt	350,000	–	–	350,000
Total current liabilities	6,150,305	37,383	–	6,187,688
Accrued post-retirement benefits	1,502,000	–	–	1,502,000
Deferred income taxes	683,645	–	–	683,645
Capital lease obligations, less current portion	470,384	–	–	470,384
Long-term debt, less current portion	33,687,500	–	–	33,687,500
Other	124,844	–	–	124,844
Stockholder's equity (deficit):				
Class A common stock; $0.01 par; 19,000 shares authorized; 19,000 shares issued and outstanding	190			190
Class B common stock; $0.01 par; 1,000 shares authorized; 1,000 shares issued and outstanding	10			10
Additional paid-in capital	124,956	–	–	124,956
Other comprehensive loss	(456,977)	–	–	(456,977)
Retained earnings (deficit)	18,724,799	(3,749,866)	–	14,974,933
Total stockholder's equity (deficit)	18,392,978	(3,749,866)	–	14,643,112
Total liabilities and stockholder's equity (deficit)	$ 61,011,656	$ (3,712,483)	$ –	$ 57,299,173

Consolidated Essent Healthcare of Connecticut, Inc.

Consolidating Statement of Operations

Year Ended September 30, 2010

	Essent Healthcare of Connecticut, Inc.	Regional Healthcare Associates, LLC	Consolidated Essent Healthcare of Connecticut, Inc.
Net revenues:			
Net patient revenue	$ 50,495,530	$ 3,538,937	$ 54,034,467
Other revenue	530,398	973	531,371
Total net revenue	51,025,928	3,539,910	54,565,838
Operating expenses:			
Salaries and benefits	19,414,774	3,680,482	23,095,256
Professional services	7,634,396	915,017	8,549,413
Supplies	5,689,724	142,021	5,831,745
Other operating expenses	5,609,902	412,399	6,022,301
Provision for doubtful accounts	1,748,130	287,316	2,035,446
Depreciation and amortization	3,147,818	139,529	3,287,347
	43,244,744	5,576,764	48,821,508
Income (loss) before interest, intercompany fees and income taxes	7,781,184	(2,036,854)	5,744,330
Interest expense	1,629,083	–	1,629,083
Intercompany fees	1,536,097	–	1,536,097
Income before taxes	4,616,004	(2,036,854)	2,579,150
Income tax expense (benefit)	1,698,674	(692,530)	1,006,144
Net income	$ 2,917,330	$ (1,344,324)	$ 1,573,006

Essent Healthcare of Connecticut, Inc. and Subsidiary

Summary of Net Patient Revenue for Sharon Hospital

Net patient service revenue for the years ended September 30, 2010 and 2009 are summarized below:

	Year Ended September 30	
	2010	**2009**
Patient service charges	**$ 121,087,948**	$ 114,452,317
Less charges related to charity care	**767,288**	430,330
Less other contractual adjustments and deductions	**69,825,130**	62,168,698
Net patient revenue	**$ 50,495,530**	$ 51,853,289

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